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ABSTRACT

In the midst of the current concern for system reform and effective services there is renewed attention to the effects of categorical funding as the predominant method of allocating resources for children and their families. This paper presents a historical view of categorical funding for services to children and families. It explores the policy options currently under review and the cases made for and against these options--in particular, the option of decategorization with increased accountability. Many of the fundamental issues that decision makers at all levels must address are raised. It takes a general position in favor of forms of decategorization that stops short of a fully decategorized system. The paper emphasizes that decategorization is not a substitute for resources but a way for getting better effectiveness from existing sources, and warns against tying decategorization to reduced overall funding to meet the administration's deficit-reduction goals across domestic programs. Appendices contain proposals for state models of negotiated, accountable decategorization that rest on two goals: (1) increasing state and local accountability for decision making about services for children and families; and (2) supporting wider services integration as a means to more effective outcomes for children and families. Information on the Finance Project and available project resources are included. (Contains eight references.) (LMI)

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REFORM OPTIONS FOR THE INTERGOVERNMENTAL FUNDING SYSTEM

Decategorization Policy Issues

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REFORM OPTIONS FOR THE

INTERGOVERNMENTAL

FUNDING SYSTEM

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Decategorization
Policy Issues

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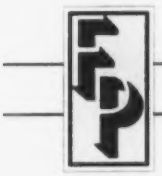

THE FINANCE PROJECT

PREFACE

Public financing for education and an array of other children's services has become a topic of significant interest and political concern. Growing skepticism among a critical mass of American voters and taxpayers has fueled doubts about the ability of government to solve social problems and provide basic supports and services that enhance the quality of life in their communities. Many believe government is too big; it's too expensive; and it doesn't work very well. Despite steadily increasing public expenditures for health, education, welfare, human services, and public safety over the past two decades, seemingly intractable problems persist. Nearly a quarter of U.S. children are poor and live in families and communities that are unable to meet their basic needs. Schools have become increasingly expensive. But student achievement hasn't matched the rising costs, and drop-out rates remain unacceptably high. Health care costs continue to go up. Yet, many Americans can't get the services they need, and with each passing year their health care dollars buy less. Criminal justice demands a dramatically increasing share of public dollars--for police officers and judges and jails--but neighborhood streets aren't safer.

Voters have spoken clearly. They want more for their money. They have called for more and better services, but they also have demanded balanced budgets and cuts in income and property taxes. In this time of big public deficits, they want government at all levels to operate more effectively and efficiently. They also want it to invest wisely and live within its means.

Across the country, there is mounting evidence of efforts to reform and restructure education and other community supports and services in order to improve the lives and future prospects of children and their families. Critical to the success of these initiatives are the ways in which they are financed. How revenues are generated and how funds are channeled to schools, human service agencies, and community development initiatives influences what programs and services are available. Financing determines how services are provided and who benefits from them. It also affects how state and local officials define investment and program priorities, and it creates incentives that guide how educators, other service providers, and community volunteers do their jobs. For these reasons, financing fundamentally affects how responsive programs and institutions are to the needs of the people and communities they are in business to serve.

In recent years, several blue ribbon commissions and national task forces have presented ambitious prescriptions for reforming and restructuring the nation's education, health, and human service systems in order to improve outcomes for children. While some have argued that public financing and related structural and administrative issues are critical to efforts to foster children's healthy development and school success, none has been framed for the specific purpose of inventively reconceptualizing public financing. Indeed, many of the most thorough and thoughtful reports have called for an overlay of new funds, but have neglected to provide cogent analyses of effective financing strategies, the costs of converting to these approaches, and the potential beneficial outcomes that might accrue from addressing financing reform as an integral aspect of program reform.

In addition, the past several years have witnessed a burgeoning of experimental efforts by mayors and city managers, governors and state agency directors, legislators and council members, program managers and school officials to make government work better and more efficiently. They have been enhanced by the work of people outside of government, including foundation executives,

business and labor leaders, community organizers, and academic scholars. Some are creating new ways to raise revenues, manage schools, deliver human services, and spur community economic development. Others are designing new public governance and budgeting systems. Still others are developing and testing new approaches to more directly involve citizens in setting public priorities and maintaining accountability for public expenditures. Taken together, these efforts suggest the nascent strands of new and improved public financing strategies.

Against this backdrop, a consortium of national foundations established The Finance Project to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, The Finance Project is conducting an ambitious agenda of policy research and development activities, as well as policymaker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

As a part of its work, The Finance Project produces a series of working papers on salient issues related to financing for education and other children's services. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of the authors. By making them available to a wide audience our intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings they present and use them to advance their own efforts to improve public financing strategies.

This paper, *Reform Options for the Intergovernmental Funding System: Decategorization Policy Issues*, was prepared by Sid Gardner, Director of the Center for Collaboration for Children at California State University at Fullerton. Originally developed in late 1993 for discussion by the Aspen Institute's Roundtable on Comprehensive Community Initiatives for Children and Families, the paper reflects the views of both its author and the working group that reviewed it and provided editorial assistance--Doug Besharov, Peter Edelman, David Hornbeck, Doug Nelson, Lisbeth Schorr and Matt Stagner. The paper was subsequently presented at the Roundtable on Financing Early Care and Education, convened jointly by The Finance Project and Quality 2000 on June 22-24, 1994.

Without changes in current financing strategies, it will be difficult to successfully implement more comprehensive initiatives that link education and other children's services and strengthen community support systems outside the mainstream of categorical services. This paper presents a historical view of categorical funding for services to children and families. It explores options for policy and financing reform--in particular, for decategorization with increased accountability. And it raises many of the fundamental issues that decision makers at all levels will have to address in their efforts to achieve better results for America's children and families.

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Executive Director

ABOUT THE AUTHOR

Sid Gardner is the Director of the Center for Collaboration for Children at California State University at Fullerton. This paper was originally prepared for discussion by the Aspen Institute's Roundtable on Comprehensive, Community-based Initiatives for Children and Families. It was presented at the Roundtable on Financing for Early Care and Education, sponsored jointly by The Finance Project and Quality 2000, June 22-24, 1994.

In the midst of the current concern for "system reform" and "effective services" there is renewed attention to the effects of categorical funding as the predominant method of allocating resources for child and family. It is widely recognized that categorical funding can present major barriers to agency and community efforts to collaborate and to provide more effective services.

The context for this recent concern with categorical funding includes several new policy developments: (1) the Vice President's National Performance Review, which proposes major changes in categorical federal programs, (2) state legislative proposals that seek greater decategorization of state funding, and (3) new emphasis on performance measures or outcomes that have been proposed as the basis for providing grantees with greater discretion in the use of funds.

This paper is an exploration of the policy options currently under review and the cases made for and against these options. It takes a general position in favor of forms of decategorization that stop short of a fully decategorized system. The paper articulates the concerns that the Aspen Institute's Roundtable on Financing for Early Care and Education should consider in developing its own position on these issues. It also attempts to widen the areas of consensus on these questions which may exist among members of the Roundtable.

Two statements clarify the boundaries of this inquiry: First, although our focus is on intergovernmental funding for children and family programs, we believe much stronger links are needed between human services and economic development programs to respond to the full needs of both families and communities. Second, the primary focus here is on federal categorical programs, although there are many categorical requirements that are added by state- and county-level policies.

This discussion is based on the underlying assumption that the purpose of considering basic changes in funding policies and practices is to make services for children and families more effective in improving outcomes. Decategorization is a means to a greater end, i.e., more effective services, measured by changes in the well-being of families and communities. We believe that decategorization will lead to improved outcomes for children and families because it will bring about greater responsiveness of services to the priorities of local citizens, a less deficit-driven, more developmentally oriented service system, and the capacity to link services with economic and physical improvements for greater synergy.

These contentions are based on two sets of empirical evidence:

(1) Multi-problem children and families need help from more than one program, agency, or community support at a time, and providing such help has been shown repeatedly to be more difficult when programs are governed by separate inconsistent categorical requirements; and

(2) Designing and implementing services that are more family-centered and more responsive to community needs is also made difficult by other characteristics of the categorical system, which emphasize a deficit approach to labeling individual

clients based on their needing one kind of categorical program at a time and which generally prohibit communities from shifting federal funds from one category to another to respond to local priorities.

In all of this, we would emphasize that consideration of decategorization as a policy option should be embedded in broader strategies of changing service systems, supporting families, and improving communities. Since decategorization is about financing intergovernmental services, it is grounded in larger issues of accountability, governance, and effectiveness--the kinds of services and support that work best to help families. This larger context should be kept in mind in reviewing these recommendations for changes in one element of the intergovernmental financing system.

HISTORY AND COMPOSITION OF THE CATEGORICAL SYSTEM

The federal budget for FY 94 includes $226 billion in grant[1] outlays. Payments to individuals under programs such as Medicaid, Aid to Families with Dependent Children (AFDC), and food stamps total 63 percent of grants; grants for physical capital projects, notably highways, add 17 percent, and all other purposes are 20 percent. Growth in the payments for individuals has been greatest, with an increase from 36 percent of the total in 1980 to 62 percent in 1992; in constant dollars the increase in payments to individuals from 1980 to 1992 was 96 percent. Medicaid was by far the largest of these grants, with its $80.5 billion in outlays in 1993 making up 39 percent of all federal grants. The larger context of this grant flow was total state and local expenditures, which were over one trillion dollars in 1992. Of that total, 22 percent was made up of federal grants, down from 28 percent in 1980.

When payments to individuals and grants for non-children and family-related programs are excluded, approximately $30 billion of education, health, and social services grant programs remain. In considering alternatives to the categorical system it is important to recognize the magnitude of funding involved. Project grants for health programs, for example, are dwarfed by Medicaid, in the same way that the new family preservation funding of $200 million a year is dwarfed by the AFDC and foster care reimbursements.

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[1] Federal grants flow to individuals and communities in a variety of ways, often through state or local governments or contracted service providers. Some funds, such as AFDC, go directly from states to individuals as cash. Some, such as food stamps and housing subsidies, go to individuals in more restricted forms. Others, such as Medicaid and funds for foster care from Title IV-E of the Social Security Act go to states to repay reimbursements they make to the providers of services. Still others, such as Title IV-B child welfare block grant funds, go to states as up-front grants to be spent on services for a particular client group. This paper, includes all these types of programs as federal categorical grants, even though general usage in the past reserves the term categorical for a smaller set of those project grants, which are discretionary and require application to the federal government.

The first categorical grant program was the 1887 agricultural extension legislation. Between 1914 and 1921, categorical grants were enacted for maternal and child health, vocational education, highways, and agriculture. By 1949 the first Hoover Commission report included a call for reform of the system of categorical grants. Under President Eisenhower, a second set of proposed reforms in 1955 also sought a reduction of categorical restrictions, while reaffirming the value of federal aid in carrying out national purposes.

But the floodtide of categorical programs unquestionably came as part of the Great Society, cresting in 1965 with the passage of hundreds of new grant programs. From 1960 to 1968 project grants increased from 132 to 379. The federal deficit was $6 billion, the entire federal budget was under $100 billion, and Vietnam had not yet become a fiscal factor. Grant programs targeted at Americans who were left out of the general prosperity were a high political priority and passed the Congress by large margins.

Robert Reischauer (1986) summarized this period as follows:

> A mismatch...existed in which the federal government perceived that it had the resources, the technical and administrative capacity, and the will to undertake a major enrichment of domestic public services while the state and local sector had the traditional responsibility for such service delivery. This mismatch was bridged by a proliferation of categorical grant programs that enlisted states and localities as agents of the federal government.

One year later the second thoughts began. In 1966, Senator Edmund Muskie chaired hearings of the Government Operations Committee which criticized the proliferation of categorical grants that had been labeled Congressional victories in the prior two years. In partial response, Model Cities agencies were given limited coordination authority over federal grants in 1967, and the first block grant for health programs previously funded by "categorical disease" funding was passed in 1966. But for the most part, proliferation continued, and the new forms of coordinative authority vested in general purpose government were far less powerful than congressional language specifying the categorical purposes of new grant programs.

Block grants of the 1970s, while responding to the concern about fragmentation, confused the issues of local discretion, since the block grants of that era typically provided increased discretion at the price of funding cuts. As a result, most of the block grant proposals of the 1980s were never considered seriously, and general revenue sharing was terminated in 1986. Some observers have noted that what the governors turned down in the 1980s--a swap of full federal responsibility for Medicaid in return for capping some entitlement programs--would have had massively beneficial fiscal effects on states if it had been in effect over the past decade. This would have been at the expense, however, of those clients affected by capped funds and more limited eligibility for programs.

The newer decategorization efforts of the 1990s, in contrast, emphasize accountability as an explicit trade-off for discretion, with states and other grantees only getting greater flexibility if they accept greater accountability for outcomes. This trade-off is not always

explicit, as discussed below, but it is much more frequently posed as a negotiating position than in earlier proposals.

EVIDENCE OF CURRENT FRAGMENTATION

By 1991 there were 557 federal grant programs, according to the Advisory Commission on Intergovernmental Relations, including 77 federal programs for children and families which are funded at a level over $100 million per year. Almost 100 of the grant programs are for social services, and more than 80 fund health care. The Education Department has 90 separate grant programs, the majority expending less than $15 million. When state and county categorical programs are added, some observers have estimated that the typical local government or school district operates in a system in which one-third to two-thirds of its budget comes from dozens of separate categorical grants, out of a total of more than 800 grant programs. For example, there are 238 separate programs for students in the Los Angeles Unified School District who are defined categorically as being in some way at risk.

In work with state and local officials over the past decade, one member of the working group (Sid Gardner) has frequently asked officials familiar with the current funding system to estimate how much of their time is devoted to overhead costs of seeking, reporting on, and renewing federal and state grant funding; the answers have ranged from 20 to 40 percent. The lower number is equivalent to roughly $20 billion of preventable annual costs (in federal funds alone, excluding state and local costs). Critics of the categorical system thus raise the question of whether its benefits are worth diverting $20 billion from services to overhead. (Among managers of non-public programs that are dependent on public funds, the proportion of time devoted to these purposes is undoubtedly much greater and surely exceeds 50 percent.)

The federal government's reliance on what has been called the phenomenon of symbolic allocations, i.e., the allocation of resources in ways that seem to address important problems without necessarily doing so, is demonstrated by the recent history of categorical funding for prevention programs. Since 1964 the federal government has funded programs in schools and other community-based or public agencies to prevent delinquency, drug use, alcohol use, tobacco use, adolescent health problems, school safety problems, child abuse, teen pregnancy, gangs, and, most recently, violence. These successive waves of prevention programs are aimed in many cases at the same students but use different labels to reflect their supposed deficits. Through small, circumscribed, widely dispersed grants, these prevention programs have created categorical bureaucracies in some high schools that literally line the corridors with separate offices. In school after school involved in the recent expansion of school-based services, planning units have documented the existence of several hundred thousand dollars of staff, allocated in small increments of one day per week or less, in schools in which counselors and support staff are overburdened by caseloads that far exceed any definition of reasonable.

ARGUMENTS FOR A CATEGORICAL SYSTEM

Why would anyone favor a categorical funding system if it is fragmented, not accountable for results, and unable to respond to family needs or community priorities? The system has flourished for several very good reasons, some political and some programmatic, which taken together are so powerful that they have impelled the expansion of the system to a point where that expansion has become one of the most remarkable governmental trends of the past three decades--as measured in both persistence and growth.

The reasons for that persistence and growth include the following:

(1) Targeted aid: The categorical system, by definition, targets its aid to people in specified categories whose needs or characteristics fit problems identified and defined in legislation. This is a very important form of accountability--the money is aimed at people who need help and thus the targeted nature of the aid is to ensure that the help gets to these people.

(2) Uncapped entitlements: Some of the largest of the categorical programs are uncapped entitlements, which can rise with increases in the numbers of those eligible for their benefits.

(3) Incremental adjustment: The categorical funding system expresses the genius of the American political system in some important ways. It represents incremental adjustment at its most flexible. It allows interest groups to lobby for separate programs one by one, as opportunities arise, without ever having to add up their total impact on the budget. It allows a "foot in the door" approach to gaining benefits, first establishing the principle of need and then expanding the funding levels and definitions of eligibility. It allows combined aid to the same people, in a kind of "backdoor needs assessment" process that first identifies a group with an unmet need--abused children, for example--and then a few years and a few studies later, defines another group--such as children who are victims of violence--who may include many of the same individuals as the first group. The second group is targeted for assistance without having to get over the hurdle of asking for more funding for an already assisted group.

AFDC income assistance, to take another example, by itself rarely meets the needs of families, but the food stamp system, the Medicaid program, and other programs not as universally available can contribute significantly more to the same families without their proponents having to make the case for an overall increase in the AFDC grant itself.

(4) Political credit: The categorical grant system works wonderfully to allow legislators and philanthropists to take credit for meeting needs with "new programs." The new programs are often funded only at token levels, but the funder is able to answer the question "what are you doing about this problem?" by pointing to a new categorical initiative, usually in the form of pilot or demonstration projects.

(5) Professional expertise and technical capacity: The categorical system has demonstrated that it can advance the state of the art in given program areas by

creating incentives for professionals to shift their attention to that area and to conduct research on the effectiveness of demonstration programs. Teenage pregnancy and youth violence are important current examples. In addition, some categorical requirements dictate who can provide services, by specifying certain credentials or qualifications of participating staff. These kinds of categorical input requirements respond to the arguments that special expertise is needed in carrying out categorical programs and as an assertion of the need for national standards. The categorical system, like other intergovernmental linkages in our system, builds on and in turn is built by the triangular relationships between professionals in a given program area, legislators and their staffs, and the executive branch specialists in that area. Although such "iron triangles" have been criticized for their insularity, the expertise that they bring to a policy area has unquestionably upgraded the quality of many program areas affecting children and families, including early childhood education, family preservation, and expansion of Medicaid benefits.

THE SPECIAL SITUATION OF LOW-INCOME CHILDREN AND FAMILIES IN THE FEDERAL SYSTEM

In considering changes that might be made in federal funding, especially changes that would loosen regulations and restrictions, it is important to take into account the special protections the current system provides to vulnerable children and families.

The special vulnerability of children, their political ineffectiveness as actors on their own behalf, and their peculiar legal status as a protected group all have been cited as justifications for their special status in the intergovernmental system. So the protections that the federal government seems best situated to provide must not be abandoned without providing alternatives.

The practices of some states are far below national norms in incarcerating or placing out of their own homes children who enter either the criminal justice system or the child welfare system. Tax "reform" movements in many states have created greater inequity in state and local tax systems in ways that shift resources toward higher income taxpayers; when a recession hits, the programs that are reduced are often those with the weakest political constituencies, including those serving poor children and families.

In assessing the relative capacity of the federal government to meet the needs of vulnerable children, it should also be noted that, despite the continuing functioning of states as national laboratories of innovation, there are a significant number of models of federal-first innovation in which states have followed national reforms in children's programs.

But the argument that the federal government is inherently more concerned than the state and local governments about the welfare of children has also been challenged recently. Issues of equity, race, and culture have been debated as widely over the past decade in states and communities as they have in Washington, D.C., without a clear demonstration that children fare better at the hands of the national government. Although the expansion of the Earned Income Tax Credit unquestionably ranks as a major victory for lower income children and families in income support, decisions on the legal standing of children in the Supreme

Court and recent legislative battles over children's programs have brought as many setbacks as gains. And in the inherent nature of the categorical system, some of the gains have come in the most marginal of victories, in which a small new federal program allows Congress and the national administration to take credit for addressing a problem with only a token commitment of resources.

The main point here is that special protection for children is an important consideration in evaluating the alternatives to categorical funding. We believe that such protection is possible, relying on outcomes as proposed below, without maintaining the entire categorical system as it functions today.

ACHIEVING A NEW BALANCE BETWEEN "BURDENSOME" AND "PROTECTIVE" REGULATIONS

It is inherent in the categorical system that it restricts eligibility to certain kinds of clients, prescribes that services be provided in specified ways (with prescribed caseload ratios, workers' credentials, etc.), and promulgates rules that protect the rights of certain kinds of clients and workers. These rules, along with such statutes as civil rights laws, laws prohibiting discrimination against the disabled, laws requiring competitive bidding and union wages, and regulations governing sanitation and safety (especially in child care settings), all represent honest efforts to safeguard the public interest and often the interests of powerless clients. Some of these rules and regulations, however, can also interfere with the responsive provision of effective services.

A shift away from categorical funding would have to be coupled with outcomes-based accountability to achieve a new balance between (1) efforts to safeguard equity and quality by regulation (a legitimate public policy goal) and (2) efforts to encourage the exercise of responsiveness, flexibility, and discretion in the provision of human services (which are the characteristics of service provision that seem to be associated with the achievement of improved outcomes for children and families--an equally legitimate policy goal). What we are really proposing is not deregulation but regulation by greater use of outcomes, rather than compliance with the required inputs of current categorical monitoring. Important questions, not fully within the province of this paper, are what this regulation by outcomes would look like and how it would function. Lisbeth Schorr's paper on outcomes provides part of the answers, and other works have also laid out how an outcomes-based funding system would work, both at the level of individual programs and at the level of agencies with multiple programs.

David Hornbeck's summary is also useful: "Outcomes-based accountability includes a system of rewards and penalties that impact teams of responsible staff directly." Others would hold the institution responsible, but not individual staff, and this issue is an important difference among proponents of outcomes-based accountability. The capacity of the overall system of service delivery and of the people staffing it would both need to be targets for sustained institutional reform, if outcomes-based accountability were to be taken seriously. Clearly, a fuller discussion of the details of outcomes-based accountability would be required to make the full case for such a major policy change. We attempt a portion of that effort in

Appendix 1, proposing model state legislation for decategorization based on outcomes-driven accountability.

Other ways of assuring quality services also might have to be instituted, including training the people needed to staff and lead a system in which accountability shifts toward outcomes rather than simply compliance with categorical mandates and in which new skills are needed to provide services that are sufficiently effective to improve outcomes.

The achievement of a new and more workable balance between centralized regulation and frontline flexibility would require a careful review of existing rules and regulations to examine the implications of loosening, eliminating, or maintaining them--within the larger context of providing grantees with greater discretion in return for greater accountability. A system that is outcomes driven would shift the burden of proof to ask whether each regulation is really essential to protect the powerless and assure equity. The questions would then be the extent to which some of these requirements are destructive of program flexibility, whether they impair efficiency or effectiveness, whether by restricting the scope and comprehensiveness of services they also reduce access for clients who are deemed ineligible or who cannot find their way from one program to another. Using these tests, for example, might modify competitive bidding requirements while reaffirming the continuing need for antidiscrimination language.

Both the politics and equity of these rules and their effect on intended outcomes must be addressed in any serious discussion of decategorization options. Each of these rules is backed by a political interest that succeeded in placing it in force and would presumably defend it from any perceived weakening. Some of these rules, we should also recognize, were enacted because of ample evidence of the need for federal mandates and protections. Shifting the burden of proof does not mean that there are not rules that can meet this new burden; it argues for beginning a review of the merits and the effects of these rules in light of the politics and the history that underlie them and in light of what is known about the attributes of effective services. It also argues, we believe, for instituting any changes in the categorical system in a demonstration form, operating system at first in parallel to the categorical. Such an approach would not eliminate the categorical system but tests its flexibility through the variations proposed below, as a way of demonstrating to defenders of the categorical system that its goals can be achieved through a more decategorized system that retains important protections.

THE ARGUMENTS FOR REFORM

The proponents of reform of the categorical funding system contend that there is a fundamental inconsistency between the existing system and emerging policy initiatives that seek family-centered policy and greater accountability at state and local levels for outcomes for children and families. This perspective holds that (1) communities should be able to draw on funding that enables them to provide responsive family-centered services by working across the now-fragmented systems, and that (2) the outcomes achieved by these services and programs should increasingly be used to assess their effectiveness and, ultimately, to make decisions about the allocation of funds.

Because data shows[2] that an increasing number of multi-problem children and families need help from more than one program or agency and that these children and families are often in more than one agency's caseload at the same time, the system's capacity to collaborate across agencies may determine its ultimate effectiveness with the clients who need help most. This capacity is undermined by the current categorical system, which prevents line-level staff from responding to the full needs of a family. Instead, staff assess a family by seeking out those labels for the deficits of the family that make the family's members separately eligible for deficit-driven support. In an era when building on a family's strengths is seen as good practice, "treating" them based on their deficits is what the categorical system demands instead.

The categorical system also makes it impossible for policymakers at the local level to allocate resources to services and programs that are most likely to improve outcomes and for policymakers and program managers to be held accountable for improved outcomes across their entire community.

More specifically, this argument holds that it is impossible to reform the child welfare system from within the child welfare system, or education from within the education system, or AFDC from within the welfare system. The external allied systems and community supports needed to make each of these categorical systems effective must be better connected to get the job done for children and families. Thus, it is futile to attempt to achieve welfare reform without seriously addressing the adjacent systems of child care, family support, health care, job training, adult literacy, and English as a second language. While each of these programs is crucial to the success of welfare reforms, the categorical system (in which each is governed by a separate agency and uses separate funds with different rules and objectives) makes it extremely difficult and often impossible to link these programs.

Currently, when agencies do manage to provide comprehensive and responsive services from within a single system, they do so by setting up parallel arrangements that mimic decategorization in microcosm, as though they had control over other agencies' resources or had been able to remove the categorical boundaries among agencies. What often happens is that agencies seeking to serve their clients' full needs attempt to add new program elements that are under their own control, rather than seeking to negotiate for these resources with outside agencies. For example, agencies serving low-income teen parents develop their own internal child care, transportation, and training programs, often in smaller amounts than

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[2] Some of the strongest evidence comes from recent needs assessments and data matches in San Diego, Oakland, and Chicago, in which the students classified as most educationally at risk in the schools were found to be in the caseloads of three or more agencies at the same time.

might be available from outside agencies' resources, because they cannot achieve agreement with these other categorical agencies to provide some of their resources to the teen parents. In a time of limited resources, control of resources becomes more important than adding greater resources from outside sources.

Other arguments for reform have been made since the mid-1960s and include the demonstrated ineffectiveness of federal agencies in monitoring the workings of the categorical system. Lyndon Johnson's budget director, Charles Schultze, wrote in 1968:

> the ability of a central staff in Washington to judge the quality and practicality of the thousands of local plans submitted under federal program requirements and to control their performance is severely limited. I believe that greater decentralization in the government's social programs should and will be made.

Alice Rivlin (1992) recently echoed this concern:

> The federal government cannot take on all these [human investment] activities without an enormous increase in federal taxes. Nor does the federal government have the managerial and administrative capacity to execute this whole agenda effectively. Part of it requires experimentation and adaptability to particular local and regional situations. State and local government are much better suited than the federal government to undertake major parts of it.

The target of this argument is the illusion that the federal government can make reliable judgments about the details of whether state and local agencies are providing effective services on a day-to-day basis--an illusion that further weakens the credibility of the federal government.

A final argument for reform rests on the blurred accountability inherent in the categorical system. As discussed above, the effect of maintaining accountability through a shift toward outcomes rather than through categorical process mandates is to increase the capacity of citizens and advocates to monitor the performance of state and local government based on the results of their programs, rather than the number of credentialed professionals they hire or the amount of intake they perform. As long as process mandates are the measuring stick, the intergovernmental "blame game" will provide large incentives for state and local elected officials to shift the blame to the federal government. While blurred accountability is a part of the intended design of the constitutional federal system, and undeniably part of its genius in governing a diverse nation, the blame game has been mastered by all participants in a way that can harm children and families by weakening the emphasis on outcomes. To summarize the argument of critics of the categorical system: an over-specialized, input-oriented system of categorical funding, relying on a weak form of accountability that ignores results, is failing miserably and must, therefore, be replaced with a system rooted in outcomes.

Table 1 presents an overview of the arguments for and against reform.

TABLE 1

Categorical System (CS) Reform versus the Categorical Status Quo: Summary of Arguments

REFORM	STATUS QUO
1. CS prevents programs from being family centered and adopting other attributes of effective services; encourages deficit orientation	1. CS protects client groups who need special support
2. CS reduces state and local governmental accountability for results	2. CS creates incentives and pressures for higher priority for programs for children and families
3. CS prevents reallocation of funds from ineffective to effective programs	3. CS facilitates advocacy on behalf of specific programs and beneficiary groups and thereby increases funding for effective programs
4. CS overhead costs are drained away from services	4. Decategorization efforts have historically linked consolidation with funding cuts
5. Families find access to CS programs difficult	5. Existing reforms show access can be improved greatly without the dislocations of decategorization
6. Federal government ineffective in monitoring impact of programs and systems	6. Federal government used to, and should again, monitor effectively

OPTIONS FOR POLICY REFORM

Proposals for reform of the categorical system range from those that accept the need for the existing system but seek greater flexibility within it to those that propose virtual elimination of large parts of the categorical system in favor of far less restricted funding.

Challenge Grants

David Osborne, who worked on these issues for Vice President Gore's National Performance Review (NPR), calls for folding $140 billion of categorical grants into "Challenge Grants." Citing the example of Pennsylvania's Ben Franklin Partnership, Osborne calls for a "third way," which is neither the traditional categorical grant nor the block grant of the 1970s that ignores the quality of programs (Osborne, 1993). This third way is "a competitive block grant...that is distributed based both on need and the quality of a state or local program."

Osborne's criteria do not rely on outcomes although they include outcomes accountability as one of several attributes. Osborne would include questions, such as, "Is the proposed strategy market-oriented? Does it empower communities to solve their own problems? Does it use competition and choice? Does it measure results?" State and local governments would be free to combine funding streams across program areas, such as education, health, and housing, to "create more integrated strategies." The federal government could articulate the mission and goals of the grant without dictating the process lower governments used to fulfill them. By measuring outcomes and rewarding success, it would create powerful incentives for lower governments to achieve their goals.

The version of this proposal that was included in the NPR report owed as much to the National Governors Association (NGA) proposals for "flexibility grants" as it did to Osborne's earlier work. The NGA proposals for consolidating the several dozen programs were adopted, with the proposed NGA figures used for the consolidation. A major part of the responsibility for implementing the early phases of this have been assigned to the new Community Enterprise Board created to oversee the empowerment zones legislation, which includes new social services funding through Title XX.

A Waiver Strategy

Others have called for a more incremental case-by-case approach, in which the burden for change would rest with state and local policymakers who would have to justify waivers from federal requirements that could be demonstrated to be hampering local performance and program effectiveness. Although the Bush administration was more active in encouraging states to seek waivers, few were requested and fewer were granted. With an ex-governor in the White House, however, there has been a major expansion of requests from the states, and many waivers are currently being processed. The bulk of these are for changes in AFDC and Medicaid requirements, and the primary intended impact of most is a reduction of state spending. While a few proposals seek greater access for clients to federal programs, fiscal motivation drives them.

At the state and local level, reviews of waiver approaches to state categorical requirements in California, Georgia, Wisconsin, and other states suggest that states are not active in seeking them out and that local governments are also not very active in developing such proposals, based in part on their reading that the states are not prepared to help them negotiate the waivers once requested (Chang et al., 1992).

State Versions of Decategorization

California, Iowa, and New York appear to have moved furthest in framing decategorization and outcomes funding as issues at the state policy level. Iowa authorized two counties to pool state categorical funds in 1990 legislation, which Charles Bruner, original author of the provision while he was in the legislature, has assessed. In an appendix to this paper we set forth options for model state legislation that build on the experience of the states that have moved furthest.

A bill enacted in California in 1993, AB 1741, authorizes five counties to receive state

funding (federal funds are not included) in decategorized "blended" funding streams in return for a state-approved county strategic plan that specifies the outcomes for which the funds would be used. The legislation will take effect in 1994.

Advocates in New York State have published a detailed prescription for staged decategorization that responds to concerns that, without careful transition, decategorization would be highly dislocating to community-based organizations.

Some states, such as Wisconsin, have allocated decategorized human services funds to their counties for several years. Those most familiar with these states argue that a thorough evaluation of the effects of this clustering of state grant support has never been undertaken.

At the local level, some neighborhood-based groups have called for a bottom-program rebuilding option, which some have characterized as "cash-out." These proposals, being planned and partially implemented at present in Sacramento and Oakland, are based in part on John McKnight's critique (1993) of public sector services as dominated by non-neighborhood forces. McKnight calls, in tones similar to earlier arguments for community action programs, for a kind of decategorization in which neighborhood-based services would be funded from sources far more effectively controlled by the neighborhoods themselves.

A common theme in most of these measures (although not in McKnight's) is their circumscribed focus, suggesting that the politics of decategorization moves best when changing the flow of dollars is not attempted at a statewide level, but on a local option basis. With a local option, the burden is placed on local communities to come up with a solid rationale for shifting funding targets as a way of achieving better results that the community commits to achieving across the entire community. Thus, the essence of the "deal" described above--discretion for accountability--is preserved as a local option, not asserted as a statewide entitlement.

The Five Percent Solution

Another set of proposals would set aside five percent or some other fixed percentage of all categorical programs (variation: of nonentitlement categorical programs only) for demonstrations of how and to what effect states and local organizations (including cities, neighborhood/nonprofit service providers, and self-help organizations) would use this new discretion to operate more flexibly in serving clients and to set priorities within broader federal restrictions, using public accountability for community-wide outcomes.

Targeted High-Needs Communities

This option is similar to option four, except that the communities in which the demonstrations would take place would include geographically defined communities characterized by persistent poverty and a high degree of social dislocation. The demonstrations would seek to learn whether less restricted funding would stimulate the development of a critical mass of more effective services and supports that would transform conditions in these areas. This option also presents the possibility, as envisioned in the new Enterprise/Empowerment Zone legislation, of linking community-targeted economic and

physical development with human services and education strategies, using decategorization authority to weave these programs together into a more unified package of targeted efforts.

Selective Decategorization

Less-complete decategorization options would loosen certain regulations, such as those covering eligibility, intake, and program design issues, to permit more flexible operations across client groups and agencies, based on some commitment to community-wide outcomes. In its 1991 report, *Beyond Rhetoric*, the National Commission on Children recommended a form of "targeted decategorization" that takes into account the troubled history of block grants in the 1970s and 1980s. Citing the Reagan administration's creation of block grants from 77 federal grants, with reduced funding for the total, the Commission sought to decouple the goal of decategorization from the budget reduction strategies that had previously accompanied it:

> The National Commission on Children recommends the decategorization of selected programs for children, youth, and families in order to coordinate policies better at the federal level and to increase state and local flexibility to design and deliver programs that meet families' multiple needs and concerns. We do not recommend any accompanying reduction in funding. Targeted decategorization is intended as a strategy to improve services to children and families and reduce administrative burdens, not as a way to trim budgets.

The report went on to point to five examples of the kinds of program areas that the Commission felt could be appropriately decategorized. These five examples included "one-stop shopping" for maternal and child health services; case management of health, nutrition, and social services; school-based programs linked to the Commission's recommendations for school-based management; programs for runaway and homeless youth; and programs for high-risk youth involved in violence and risky behaviors.

Similarly, in 1981 and 1986 the Advisory Commission on Intergovernmental Relations proposed criteria for phasing out categorical programs that are too small to have an impact or that could be funded from state, local, or private sources.

NEGOTIATED DECATEGORIZATION

An option that combines elements of some of the above approaches (as developed by Charles Bruner and others in a form reminiscent of the "negotiated investment strategy" developed in the 1970s by Housing and Urban Development and the Kettering Foundation for some community development programs) would allow states and localities to negotiate case-by-case arrangements with the federal government for selective decategorization based on state and local plans.

Other variations could include the degree of federal involvement (site selection versus response to proposals), the provision of federal and other technical assistance, the advisability of building on ongoing efforts, the breadth of program areas or categories of funding to be

allowed, and the degree of state leadership that is required. Each of these variables should be assessed in relation to the extent to which it contributes to the achievement of some or all the goals of decategorization in terms of client outcomes and accountability for community priority setting.

Negotiated decategorization offers the prospect of dealing openly with the intricate politics of decategorization, in which national interest groups organized around specific categorical funding resist all changes in the categorical language that targets the funding that they sought as a federal program. At the local and state level, such groups could and should be "welcomed into the tent" and offered a formal role in the bargaining around decategorization. They would thus be challenged to review proposed new outcome measures as a way of focusing on results, rather than categorical compliance, as a means of protecting the specific needs of their clients. Federal officials, who have reported frustration with recent efforts to follow up on some of the recommendations of the National Commission on Children for clustering grants, acknowledged that the "sale" might have been easier if it had been a negotiation devolved at the state level in a few states, rather than an all-or-nothing bargaining in Washington.

"Wrap-Around" Funding

Some defenders of the categorical system have also argued that considerable improvement in the responsiveness of the system is still possible through the use of wrap-around funding, in which different programs are made available in combination to address the needs of an individual requiring help from more than one program. Better program design, in which the program rather than the funding stream is the center of the strategy, has been proposed as a way to circumvent many of the obstacles created by categorical funding.

In this framework, wrap-around funding becomes a way of substituting one form of services integration for the strategy of decategorization. This approach would tap existing funding for its optimum flexibility in integrating services to enable focusing resources on key problems, such as teen pregnancy, use of leisure time, or youth unemployment.

MOVING TOWARD A LESS CATEGORICAL AND MORE ACCOUNTABLE SYSTEM

It is possible to conceive of a carefully graduated series of moves toward a less categorical system that would stop short of achieving a fully decategorized system. All the options described above stop short of a fully decategorized system. Within our working group, we agree that in the short run that option should not be on the table. We have different points of view, however, on its longer term advisability. It is possible, some of us believe, to envision adequate protections in an outcomes-driven system that disaggregates outcomes by relevant populations in a way that may even be more effective than restrictions based on categorical inputs. Others of us believe strongly that the ongoing task should be to "enlarge the categories" and not to work toward "one big funding stream" from the federal government. The latter point of view rests in part on the concern (discussed below) that the outcomes element of the discretion/accountability trade-off is what is most likely to disappear or be weakened over time.

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For the federal government to withdraw completely from the business of discretionary grants, and to leave this arena of intergovernmental policy to states and localities, is a further option. The federal government, in this view, does a much better job of redistributing income than pinpointing funding to exemplary programs or designing programs to help states and communities respond to the needs of families with multiple problems. Our working group does not have a consensus on this option, but we identify it as another way of making clear the range of views on the role of the federal government.

We share a concern that there would be great dislocation in completely abandoning the categorical program systems, for all their deficits. We agree that the loss of protection needed for children and families should be weighed carefully, in detailed reviews of program requirements, against the negative effects of these requirements. The need for strengthened state and local capacity to develop and monitor outcomes as a prerequisite for major decategorization, as discussed in Appendix 1, is a further concern.

In different ways these approaches to partial decategorization address many of the problems created by categorical funding and present many new challenges to state and local government. To meet these challenges would require a substantial transition period to allow for careful planning, with a level of training and technical assistance that would be considerably beyond the resources recently devoted to this kind of intergovernmental capacity-building effort. Assuring that such resources would be available in support of a well-planned transition should be a priority in weighing decisions to adopt and implement any of these options.

Members of the working group, however, pointed out that framing "the deal" of greater discretion in return for greater accountability was easier to do in a policy paper than in legislative negotiations. As expressed by one member of the working group, "a lot of things get taken up to Congress as a package and come back with part of the package missing." The hard part--the accountability part--is what is most likely to be missing.

On this point, we can learn, perhaps, from the recent discussions of outcomes in national proposals, including those of the Vice President's NPR. It is instructive to contrast two treatments of the subject of outcomes in intergovernmental negotiations. First, there is a clear contrast in the original NGA proposals for flexible grants between the emphasis on discretion and the emphasis on accountability through outcomes. The NGA proposals to the President place a great deal more stress on eliminating the mandates which burden state government than on the states' willingness to step up to new explicit outcomes by which their performance could be assessed.

Second, the NPR document, as released, shows another form of contrast in the depth of attention given to outcomes. Perhaps reflecting the NGA proposals from which it was taken, the NPR language discusses outcomes in far less detail in its proposals for state and local governmental reform than it does in addressing the weaknesses of federal agency performance. Federal agencies are urged to use outcomes-based funding to guide all performance whereas the emphasis on using outcomes in intergovernmental funding to state and local governments is much more muted.

We should not make too much of this, since it may well reflect an appropriate emphasis on the business closest to hand in the federal agencies. But the distinct down-playing of the outcomes part of the deal does underscore the concern that they would be the hardest part of the package to sustain in congressional and intergovernmental negotiations over new policy. Complaining about mandates is built into the federal system of sharing accountability; accepting new accountability for results requires a different kind of leadership. This would seem to strengthen the argument that the deal should be offered selectively to the states and localities willing to take both sides of the deal before national policy, embodying the discretion/accountability tradeoff is attempted. This is what the Vice President's task force recommended, in suggesting bottom-up flexibility in developing customized block grants responsive to what states and communities propose.

Thus, the element of negotiated accountability for decategorization emerges as a critical ingredient across all these options. If a community is to assume greater responsibility for human services as a community enterprise, rather than as a disparate set of funding streams with no central purpose, it will require staged devolution of responsibility for funding and governance. That devolution cannot be accomplished by a single act of national legislation, in our view; rather, it should proceed from negotiated steps toward greater accountability, in which the negotiation process itself tests the capacity of all levels of government to move toward a different kind of service delivery and a different kind of funding system, in which both are designed and measured against their results. At present, there is no way of institutionalizing a process of negotiations among levels of government about increasing accountability and discretion in use of categorical funds at lower levels of the system. Developing such a process would fill a critical gap in intergovernmental capacity in our view. We discuss some of these issues at greater length in Appendix 1.

THE NEED FOR DESCRIPTION, DOCUMENTATION, AND EVALUATION

It is essential to understand fully both the process and the consequences of efforts to experiment with or to implement any of these reform options. Impacts on children, families, agencies, institutions, staff, and communities should be documented and analyzed. A wide variety of process and outcomes measures should be used to shed light on the complex interacting interventions being considered. It is also important to understand and describe the extent of community ownership and involvement that results from the process of developing community-wide goals and the outcomes measures to monitor progress toward those goals. What involvement beyond program-focused providers and political elites results? What processes seem to broaden involvement most effectively? What happens when goals are not achieved as assessed by interim measures?

Even before any of the reform options described in this paper are undertaken, it would be useful to review ongoing state- and local-level decategorization efforts already under way in Iowa, California, Wisconsin, and other states, with a view to extracting lessons and identifying salient policy issues. Since accountability for outcomes probably cannot be achieved if each agency is held responsible solely for its own program outcomes, the structure of local governance mechanisms needed to achieve accountability across categorical

programs should receive particular attention. The review also should look at the comparative effects of the different approaches to reform of the categorical system, as well as the various methods that have been tried for training staff in an outcomes-driven system, in which results and performance are measured in terms of client outcomes, not compliance with federal rules.

CLARIFYING ASSUMPTIONS ABOUT FUNDING STRATEGIES

There are some base assumptions that need greater clarification than they usually receive in discussions of intergovernmental systems. Two separate funding issues are often discussed without clarifying the assumptions of the parties involved. Those issues are what level of new funding and what kind of funding is likely, given the economic and political situation? Put in the largest possible context, the questions are (1) what is the fiscal future within which federal grant and entitlement funding will be determined? and (2) what is the future of categorical funding as the primary way in which the federal government distributes grant and entitlement funds? Advocates for different proposals to reform the categorical system should be clear about their assumptions about resources, since what we believe about needed increases in funding and needed increases in program effectiveness--the "more vs. better" debate--affects what we believe about what kinds of reforms, if any, are needed.

- If one believes that increases in federal funding are needed, and that these are most likely to come through incremental efforts to increase funding of current programs and to add new ones, then reforming the categorical funding system would become a lower priority.
- On the other hand, if one believes that increases in federal funding are needed but will be more likely if the current system's effectiveness can be demonstrated, the elimination of categorical barriers to effectiveness becomes more important.
- A third possibility is that one believes that more funding is needed but is unlikely until the federal fiscal picture and the national economy improve. Then reform of the categorical system would simply have to await better times.
- The fourth possibility is that one believes that more funding is not needed, and that current funding amounts would be sufficient to improve outcomes for children and youth if the structure, authority, and accountability in the current system were radically reformed. Then reducing categorical barriers would be an important way-station on the path to those larger reforms.

During the "integration of services" era in the 1970s, most people involved in those discussions assumed that services would remain separate, categorical, and fragmented. The task of integration was to be undertaken as a means of linking service programs that originated in separate federal legislation and budget allocations. These separate funding streams were seen as requiring integration as they came into a community. Categorical funding and categorical programs were likely to increase; it was their use at the local level that would be different.

The new movement toward decategorized services that would be funded based on outcomes operates from fundamentally different assumptions. Proponents of such a system assume that the categorically fragmented system of services is itself the problem. Therefore, communities should have the power and should be helped to build the capacity to combine services based on outcomes and community priorities, in part as a way of dealing with constant-level funding relative to inflation, for most categorical programs. The resource assumptions underlying these two strategies make up at least part of the basis for their differences, but those assumptions are not often made clear in the emerging debate. It is the argument of this paper that those assumptions be made explicit, as a way of clarifying the extent to which the debate is about programs or about dollars.

Assumptions about funding are also important in considering the role of funds generated by refinancing of current state and local budgets, in which federal entitlement funding from open-ended sources is used to expand support of state and local programs for children and families. The argument is in part about how much of a window is open for such expansion in federal funding, how long such a window will be open, and whether state and local allocations of new federal funds will be directed to new programs or children and families, rather than being used as budget plugs.

Some have contrasted the efforts required to succeed in these refinancing options with the need for reallocation of existing funding, based on the use of available information about which programs are effective in meeting intended outcomes. These refinancing redeployment choices are rarely either/or, but they are in competition because both require tapping scarce state and local leadership and staff capacity. Refinancing takes advantage of the openings that remain in the categorical system, whereas redeployment addresses the issue of which of the categorical programs are effective in helping children. The first is a fiscal strategy; the second is more programmatic and outcomes driven. Both are needed, but there appear to be some trade-offs in the capacity changes required to make both happen.

Again, clarity about the intent of both strategies may make it easier to justify the resources required to pursue both at the same time. These potential trade-offs between fiscal strategies should be part of the continuing discussion of the future of the categorical funding system, weighing the possible gains from fiscal strategies against delivery system strategies. From which programs can we get the most refinancing and new allocations? Which programs can provide the greatest choice and accountability to clients and communities? Which programs are most likely to improve the effectiveness of services?

LESSONS FROM THE ROLE OF FOUNDATION-FUNDED INITIATIVES

Foundation-sponsored cross-systems initiatives attempting to develop coherent local services and supports that respond flexibly to family and community needs obviously have a stake in the ways that other funds are sent into communities. The more restrictions on the use of money flowing into communities, the harder it is to create flexibility and responsiveness. The more programs and levels of government involved across the categorical programs, the more difficult it is for these initiatives to bring the relevant parties together and create new forms of community governance.

An obvious tension exists between the goals of new funding streams that provide incentives for systems change and the goals of establishing a visible base of projects that operate as "entry points" for systems change without trying to "do it all at once." If the entry point is too small, it will run the risk of becoming just another freestanding categorical project, operating as an add-on to a system that will gladly accept new funding while the system itself remains unaltered. Many state and local officials believe that the main effect of requiring new collaboratives for new crosscutting initiatives has been to proliferate coalitions that purport to be about systems change. At times these new bodies can become quite categorical in their operations, devoting great energy to protecting a new initiative from incursions by the others.

At the same time, these foundation-sponsored cross-systems initiatives can serve as natural experiments and prove highly valuable for informing the process of adopting governmental funding policies in ways that promise to improve outcomes for children. In monitoring and understanding the effects of these experiments, it will be important to try to capture their impact not just on individuals and communities but also on the categorical systems whose overall funding will continue to dwarf the new initiatives. In that regard, clarifying what is a reasonable standard of success for the early stages of initiatives aimed at systems change may be important.

These initiatives have also helped in clarifying some of the important governance issues that arise in decategorization-outcomes policy. An especially important governance issue is the question of which entity at the local level is selected to be the recipient of decategorized funding or which entities are at the table in the negotiations among the local government and state or federal agencies. Put simply, the question is who is "the community?"

We did not attempt to answer this question with a single response, since we believe that the key element is the need for flexibility in responding to any local entity's willingness to be accountable for results. But we agreed that at least three sets of "missing players" were consistently absent in many sites: (1) nongovernmental neighborhood-level organizations, which are at times excluded from intergovernmental negotiations; (2) city governments, which are at times excluded from county/state negotiations in states with county-administered health and family services; and (3) schools, which are vital partners in community-level efforts to work with children and families.

We also want to reemphasize the lesson from cross-systems reforms that nongovernmental supports are at least as important at the level of the community as governmental service delivery programs. The work of self-help groups, parent associations, ethnic clubs, churches, and other nongovernmental organizations has repeatedly proven vital in widening community involvement in public sector programs, which consistently fail without such active engagement. Local business support has also proven helpful in many local consortia, both in bringing resources to the table and in asking hard questions about the "bottom line" of the capacity of programs to prove their effectiveness against agreed-on outcomes. Intergovernmental negotiations that leave out these players will omit some of the most important resources and buy-in needed for community-level success. Inclusion strategies thus become an important part of cross-systems reforms, which unquestionably

require more time while bringing to bear a much wider array of resources than narrow program-driven approaches.

THE SPECIAL IMPORTANCE OF TECHNICAL ASSISTANCE AND STAFF DEVELOPMENT

The group believed that technical assistance is an important element, and should be provided by staff who are familiar with categorical programs across federal agencies, community-based planning, and the development of outcomes that cut across systems and agencies. Specifically, three forms of technical assistance are important: (1) "horizontal" technical assistance from several dozen leaders of the strongest community-based organizations and from those cities and counties that are furthest along in collaborative governance and outcomes-based accountability, sharing the lessons of their experience with their peers; (2) support from federal officials working in teams with outside organizations who are prepared to review an entire linked plan for community development sites (rather than a "taking out the staples" approach in that each official only reviews the portion of a comprehensive plan from their own program area); and (3) support from both federal and state staff who can run interference with the extensive layers of categorical requirements that are imposed at the state, rather than the federal level.

Developing a technical assistance effort with any one of these elements fully in place would be difficult; orchestrating one that includes all three would be a great challenge, but we believe it is possible. The pending discussions (as of April 1994) on technical assistance under the new Community Enterprise Board chaired by Vice President Gore have already raised many of these issues. It is hoped that this tripartite approach to technical assistance, linked to a community-based component that emphasizes the active involvement of grassroots groups, would assure that the Board does not return to conventional, program-oriented technical assistance efforts but uses this new opportunity to create a new intergovernmental capacity.

It is also important to point out that federal technical assistance also must undergo some institutional change if it is to respond to the new opportunities with more than the same old institutional responses. Program-oriented staff and technical assistance providers will provide program-oriented support, rather than crosscutting, outcomes-driven, community-based assistance. Relying on federal regional offices as currently constituted or on the current array of technical assistance grantees, which are funded to provide assistance in categorical programs, will assure that what is provided is what these staff and organizations do best--categorical program assistance, rather than cross-system community-based support. Facilitating discussions, where states and communities are developing outcomes where they will be accountable for achieving and working with neighborhood groups as active participants in such discussions that range across multiple program areas, are simply not tasks that can be assigned to professionals and organizations who have been trained and rewarded to see the world in categorical terms.

In contrast, there is a network of technical assistance providers and community facilitation organizations which has become more formal over the past three or four years, in part due to foundation support for their efforts. This network should be challenged and

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enlisted in the effort to work as part of the new outcomes-driven, community-based, federal/state/local discussions. A new capacity is needed, along with an effort to identify and re-train the best talent already available within the federal government to work on such issues.

CONCLUSION

The issues around categorical grant systems are intensely political ones. Events and trends not within the purview of this paper appear likely to affect the politics of categorical funding, in several important areas.

First, there are several arenas of federal policy in which these ideas will be played out over the next several months. These include (1) the work of the new Community Enterprise Board in implementing Empowerment Zones/Enterprise Communities legislation; (2) the interagency task forces working on issues of violence; (3) the revisions of the Bush administration's "Weed and Seed" effort toward a more preventive orientation consistent with Attorney General Reno's outlook on delinquency; (4) welfare reform; (5) family preservation and family support efforts; and (6) the pending proposals for health reform. Our group felt that in the short and medium range (two to four years) no significant increases in intergovernmental funding would occur, with the possible exception of those funds required to make health reform effective. We believe that this will increase the importance of outcomes-based accountability, the need for programs to demonstrate performance against agreed-on outcomes, and the importance of a redirection agenda targeted on existing funding.

At the same time, however, we would warn against tying decategorization to reduced overall funding to meet the administration's deficit reduction goals across domestic programs. The purposes of any serious decategorization efforts are called into question when they are tied to funding cuts. This policy would echo strongly the context of block grants in the 1970s and 1980s, which were seen as inextricably combined with budget cuts and thus were highly unpopular.

Second, it seems likely that attempts to fundamentally reform the categorical system would await serious congressional reforms, since the protections of the current system rest heavily in the congressional subcommittee system.

Third, the reception given to Vice President Gore's reform proposals, to the extent that they deal with categorical reforms, will provide a new spotlight on these issues, but in ways that may demonstrate the intractability of the system or its capacity to adjust to incremental reforms.

One observer, who recently left the federal government and who is familiar with the decategorization efforts of the 1970s, has said "The categorical system will not change in my lifetime." Another, from a very different vantage point, has been quoted as saying "We know what works, but we lack the [trained] people and the funding streams to make it happen."

Both may be right. The system may desperately need changing, and the system may be unchangeable. But we believe that placing decategorization where it belongs, in a larger context of strategies to change service delivery at the community level, with a coequal

emphasis on accountability for results, is a new and more effective way to raise both the visibility and credibility of these issues in the national debate about policy for children and families.

It is important to emphasize again that decategorization is not a substitute for resources but a way for getting better effectiveness from existing resources. We do not believe that decategorization is either a panacea by itself or a substitute for more investment in children and families. But we believe, for reasons set forth in the body of the report, that it is an increasingly important policy option that should be tested fully, in approaches such as those outlined in this paper.

A final issue is our conclusion about the significance of these policy changes for the overall effort to improve services to children and families. If categorical reform is seen as marginal compared with increased program effectiveness as a result of large funding increases, categorical reform may mean little. If, however, the categorical system is itself regarded as a major barrier to more responsive effective services--which is how we see it and how we read the trend of current policy--changing it may become a matter of much greater urgency.

APPENDIX 1

Proposals for State Models of Negotiated, Accountable Decategorization

In reviewing the options for policy approaches to decategorization, we believe special emphasis should be given to the prospect of model state legislation that would embody several of the principles emphasized in this report. This Appendix describes the suggested legislation in broad outline, as a way of expanding the discussion about these policy options.

These proposals for state legislation rest on two goals: (1) increasing state and local accountability for decision-making about services for children and families, and (2) supporting wider services integration as a means to more effective outcomes for children and families.

The model state legislation should have four elements:

(1) State Responsibility and Capacity: A law authorizing the executive branch to contract with substate jurisdictions to decategorize funds and waive whatever requirements state law permits, such as eligibility choices permitted by federal law. This section should set forth the states responsibilities under the legislation, making clear which state funds and revenue sources are included, as well as what kinds of technical assistance and information are to be provided to local planners by the states. Without this information, recent experience makes clear that there will be an inevitable Alphonse-Gaston act between state and local governments, in which each refuses to commit resources to decategorization unless it is assured that the other will take it seriously. It will help reduce this credibility gap for the states to make clear that state agencies are prepared to play an active role, beyond simply announcing that decategorization is an available option and waiting for the applications to come in for state response.

A further issue of state responsibility is the extent of legislative involvement in the monitoring of local response and in negotiations with communities, given the critical role of legislators in creating and defending categorical programs. Legislators' ability to recategorize grants that have been decategorized is evident in the history of virtually all block grants over the past two decades. (In the substance abuse field at the federal level, where several new mandates have been layered onto steady-level funding for prevention and treatment for the past five years, this has become known as "block-a-gorical" funding!) Thus it may be essential to involve the legislature in the acceptance of this pilot approach to decategorization, emphasizing that it is not wholesale decategorization but a carefully selected set of demonstrations.

(2) Local Responsibility and Capacity: This law should also clarify the locus of responsibility for decategorization policy at the local level, setting out the roles of the Board of Supervisors, their senior staff, and external agencies and organizations. This section also should set out the parameters for county (or other local

government) capacity, which are needed to implement decategorization, such as use of outcomes measures, information systems that can gather aggregate data across agencies, and adequate staff development to provide some advance planning before implementation. This section also should clarify the nature of the process to be used to set priorities at the local level, including means of assuring that it is an appropriately inclusive process that reaches beyond the government itself to wider community involvement.

(3) Accountability Standards: The law further needs to clarify what standards of performance will replace current requirements for categorical reporting of intake, other inputs, and compliance data. We would suggest three broad options for these standards:

- the community's own goals and outcomes measures that reflect them;
- negotiated goals--in which the state specifies the broad areas of policy, such as self-sufficiency, family preservation, reduction of out-of-home care, or delinquency reduction; and the community responds with a benchmark that it is willing to be held accountable for reaching over time--to be reviewed and approved by the state; or
- public reporting of what outcomes are actually achieved under decategorization in the programs that are removed from categorical compliance.

This section should also clarify the extent to which the state decentralizes its authority and regulatory powers as a part of decategorization. For example, in the area of child welfare programs, the issue becomes whether the county (city or neighborhood) would become responsible for investigation, intervention, and case disposition. We believe the state should experiment with this kind of delegated responsibility for statewide goals but only in those areas where local accountability standards and the locus of local responsibility have been made clear in a multi-year strategic plan that provides adequate justification for such delegations.

This section also needs to make clear what rewards and sanctions the county/community gets if it does well or poorly against the standards it sets or negotiates. Although we do not believe that reduced funding should be a short-run option (see below), over the medium and longer range (three to five years) communities must see advantages in at least one of three critical areas: program effectiveness, funding, or discretion in setting priorities.

Accountability decisions also need to include the important distinction between outcomes-based funding tied to institutional performance and that tied to individual performance. For a team of integrated service workers to receive increases in funding based on their performance conveys a different message about accountability for results than for an entire agency to receive increases or decreases. Some of our members believe that both institutional and individual (or team)

performance should be considered for maximum effect, and others believe that only the institutions should be held responsible for performance changes.

(4) Parameters for Negotiation: This section of the legislation should address the items to be negotiated between the state and localities, such as, what is the time frame and duration of the agreement, whether a third party may be needed, what documents will be required of the locality, and who will represent each side in the negotiations.

In our view, a central issue here is that decategorization should not be so risky in its initial stages that it causes financial losses to communities. Thus, some form of "hold harmless" is a key criterion going into negotiations. This should not extend longer than the first two to three years of the decategorization, but it is a critical element of the early stages. The penalties that are set up as a result of negotiated accountability include a loss of discretion and public scrutiny, which should be of equal importance to the loss of funding. The key principle, however, should be that both communities and the state can "win" by taking on this kind of systems change. For communities, the up side should be some form of performance reward, as well as the benefits of the spotlight created for those communities that are the leaders in these reforms.

Taken together, these four elements become a model for a process of accountable decategorization, planned and implemented through a gradual deliberate set of stages. It has the advantage, as discussed in the body of the paper, of not requiring national across-the-board confrontation with specific interest groups. It also has the advantage of being monitored carefully at the state level by federal officials, their state and local counterparts, and independent evaluators. To the extent that decategorization is a less important goal than achieving state and local consensus on policy goals, it will require that such consensus be developed before decategorization begins in earnest.

It also seems much more likely that a strong role for local government and community-based organizations can be developed in a state that is serious about accountable decategorization than at the national level. The role of community-based organizations, in particular, needs strengthening in any transition to a newer more outcomes-based funding system. Working at the state level would enable states and foundations to test different roles for community-based organizations, both working with and separate from local government, in determining how these critical elements of the delivery system can best accept newly devolved roles while building their capacity to play such a role.

A good deal of this proposal is based on emerging experience in California, Iowa, Wisconsin, and other states that are tentatively attempting various forms of decategorization. For example, Iowa had blanket authority to do decategorized agreements, but no clarity about what entity at the local level would be responsible or what capacity that entity needed to demonstrate.

An advantage of California's new legislation is that it follows by two years prior state legislation that authorized counties to set up coordinated planning bodies (SB997) for services to children and families that cut across local government jurisdictions within the county.

That meant that for many counties (more than 35 of 58) there is a preexisting body with state authority to coordinate programs at the county level, which avoids the need to create such a body after decategorization legislation is passed.

Another lesson is suggested by California's staging of its new decategorization efforts, which will be targeted in five counties to be selected in December 1994. It is expected, however, that these counties will be selected from among nine that have already been selected for a yearlong County Policy Academy. The Academy is a capacity-building effort sponsored jointly by the state government and a fourteen-member Foundation Consortium. Using this opportunity to assess and strengthen the capacity of the county for developing strategic plans, for setting target groups, and for developing outcomes was felt to be an important prerequisite to implementation of the new decategorization legislation. The curriculum and technical assistance provided for these nine counties includes special emphasis on linking countywide shared goals with outcomes measures. Additional outcomes work is emerging from the New American Schools Development Corporation's funding, along with several national foundations, of the Improved Outcomes Project based at the Center for the Study of Social Policy. Work under way at the University of Southern California School of Social Work and California State University (which jointly recently convened a statewide conference on outcomes-based policy in California) and the Innovations Group in New York State also has advanced the frontiers of outcomes development.

It should also be made clear that the negotiations element of this proposal could learn much from work undertaken by the Kettering Foundation over the past twenty years in developing proposals for a Negotiated Investment Strategy (NIS). The NIS was used as a way of framing the need for wider consultations among all the players in intergovernmental funding. Some of the work on the NIS would seem directly applicable to these proposals for decategorization, especially since the NIS focused on community and economic development, an arena that we believe needs closer links to human services (as evidenced in the links between Title XX and the new Enterprise/Empowerment Zones legislation).

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THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

RESOURCES FROM THE FINANCE PROJECT

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School Finance Litigation: A Review of Key Cases by Dore Van Slyke, Alexandra Tan and Martin Orland, with assistance from Anna Danegger (December 1994)

Spending and Revenue for Children's Programs by Steven D. Gold and Deborah Ellwood (December 1994)

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